

## **India's Balance of Trade with Nepal –Recent Trends**

**Dr. Satish Chandra Pant**

*Faculty of Commerce & Management Studies*

*Government P.G. College, Rishikesh,*

*Dehradun, Uttarakhand*

*Email : satishpant@gmail.com*

### **Abstract**

*The Republic of India and the Federal Democratic Republic of Nepal initiated their relationship with the 1950 Indo-Nepal Treaty of Peace and Friendship and accompanying secret letters that defined security relations between the two countries, and an agreement governing both bilateral trade and trade transiting Indian territory. The 1950 treaty and letters exchanged between the Indian government and Rana rulers of Nepal, stated that “neither government shall tolerate any threat to the security of the other by a foreign aggressor” and obligated both sides “to inform each other of any serious friction or misunderstanding with any neighboring state likely to cause any breach in the friendly relations subsisting between the two governments.” These accords cemented a “special relationship” between India and Nepal. The treaty also granted Nepalese, the same economic and educational opportunities as Indian citizens in India, while accounting for preferential treatment to Indian citizens and businesses compared to other nationalities in Nepal.*

*Nepal's trade deficit with India has surged in recent years with continuously rising imports and sluggish exports. Indo-Nepal trade continues to remain massively in India's favor. For the fiscal year 2010–11 (July 16 – July 15), the official bilateral trade between the two nations was US\$4.21 billion, while the unofficial trade between the two countries is also estimated to be about the same. Unofficial trade between the two countries, however, has flourished over the recent decades. Open border between the two countries has meant that madheshi immigrants living along the Indo-Nepal border trade unofficially to avoid paying importation tax in Nepal. Records from Nepalese 'Bhansar Karyalaya' show that Nepal's import from India amounted to US\$3.62 billion and exports to India was US\$599.7 million in 2010–11. In the first six months of fiscal year 2011–12, Nepal's total trade with India was about US\$1.93 billion; Nepal's exports to India were about US\$284.8 million; and imports from India were about US\$1.64 billion*

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**Dr. Satish Chandra Pant,**

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## **Introduction**

Nepal is India's next-door neighbor and both are bound by age old traditional ties, historically as well as culturally and have a long association marked by respect for each other. Based on the strength of the history of friendship, Nepal India relationship is far above politics. There is free mobility of the citizens of both countries requiring no travel permits and trade transaction is almost unhindered unlike any other third country. India has been playing a substantial role in the economic development of Nepal during the last 35 years. About half of the total foreign financial assistance extended to Nepal during this period was from India. Really, India is one of the major donor countries and has offered generous grants for the economic development of her friendly neighbour country Nepal.

Nepal's main imports from India are petroleum products (28.6%), motor vehicles and spare parts (7.8%), M. S. billet (7%), medicines (3.7%), other machinery and spares (3.4%), coldrolled sheet in coil (3.1%), electrical equipment (2.7%), hotrolled sheet in coil (2%), M. S. wires, rods, coils and bars (1.9%), cement (1.5%), agriculture equipment and parts (1.2%), chemical fertilizer (1.1%), chemicals (1.1%) and thread (1%). Nepal's export basket to India mainly comprises jute goods (9.2%), zinc sheet (8.9%), textiles (8.6%), threads (7.7%), polyester yarn (6%), juice (5.4%), catechue (4.4%), Cardamom (4.4%), wire (3.7%), tooth paste (2.2%) and M. S. Pipe (2.1%)

## **India's Trade With Nepal – Recent Trends**

In present study the trend of India's Trade with Nepal has been analyzed in three parts

- (a) India's Export to Nepal
- (b) India's Import from Nepal
- (c) India's Trade balance with Nepal

### **(a) India's Export to Nepal**

Although, India's export to Nepal has been increasing at a fair rate, it is much less as compared to the potential. The economy of Nepal is highly under developed. So there is tremendous scope for Indian Industrial goods to find their place in that country. At present India is exporting Tea, Pulses, Rice, Wheat, Coffee, Cereals, Sugar, Spices, Mica, Sport Goods to Nepal.

In the present scenario India's export to Nepal has not increased at a fast rate as it has gone up in earlier years. India's export to Nepal reaches to Rs. 1695 Cr. in year 2002-03 from Rs. 1022 Cr. in the year 2001-02. Thus there was only a surplus of 66% on the 2001-02 exports of India to Nepal. During the year 2003-04

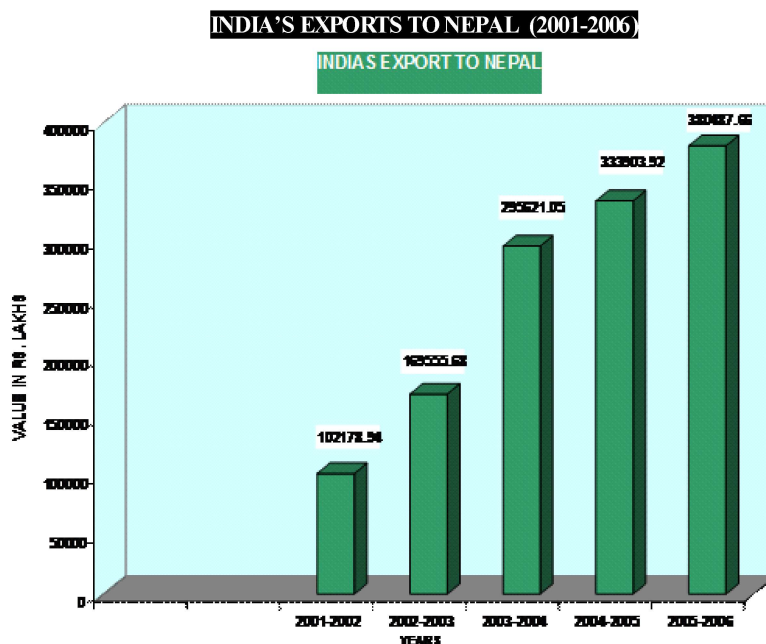
India's export to Nepal were gone to Rs. 2956 Cr. from Rs. 1695 Cr. in 2002-03, resulting again a significant increase of 74% on exports of 2002-03 to the Nepal. In the preceding year 2002-03 the increase was 66% and in the year 2003-04 it became 74% thus the rate of exports to Nepal were increased to difference of 8%.

In the year 2004-05 India's exports to Nepal were Rs. 3339 Cr. as compared with the 2003-04 when it were Rs. 2956 Cr. Thus the increase in trend of India's export to Nepal during the year was 13%. India's export to Nepal during the year 2005-06 were Rs. 3805 Cr. which in the year 2004-05 were Rs. 3339 Cr. Comparing both the values the conclusion comes that there had again been an increase in the India's export to Nepal and on computing this increase is approx. 14% on the export of 2004-05.

**Table 1**

<b>INDIA'S EXPORT TO NEPAL</b>					
	<b>VALUE IN RS. LAKHS</b>				
<b>YEAR</b>	<b>2001-2002</b>	<b>2002-2003</b>	<b>2003-2004</b>	<b>2004-2005</b>	<b>2005-2006</b>
<b>VALUE IN RS. LAKHS</b>	102178.94	169555.68	295621.05	333903.92	380487.66

**Figure 1**



### Trends of India's Export To Nepal

India's Export to Nepal Trends has been analyzed by using Least Square Trend Value Equation:  $Y = a + bX$

Where

Y = Required Trend Value of Export to Nepal.

X = Unit of time

a = Constant Value  $a = \frac{\sum Y}{N}$

b = Intercept  $b = \frac{\sum XY}{\sum X^2}$

1. Table for Computing the Value of Constants (Values in 000' Rs. Lakhs)

YEAR	Y (EXPORT VALUE) IN 000' Rs. LAKHS	X (TIME DEVIATIONS) BASE YEAR= 2003-2004	X <sup>2</sup>	XY
2001-2002	102.18	-2	4	-204.36
2002-2003	169.55	-1	1	-169.55
2003-2004	295.62	0	0	00.00
2004-2005	333.90	+1	1	+333.90
2005-2006	380.48	+2	4	+760.96
N = 5	? Y = 1281.73		? X <sup>2</sup> =10	? XY = 720.95

2. Computation of the Value of Constants and Trend Value Equation (Values in 000' Rs. Lakhs)

Value of Constant (a)	Value of Constant (b)	Trend Value Equation
$a = \frac{\sum Y}{N}$	$b = \frac{\sum XY}{\sum X^2}$	$Y = a + bX$
$a = 1281.73/5 = 256.34$	$b = 720.95/10 = 72.09$	$Y = 256.34 + 72.09X$

(Values in 000' Rs. Lakhs)

$$Y_{2006-2007} = a + b(+3)$$

$$Y_{2006-2007} = 256.34 + 72.09(+3)$$

$$Y_{2006-2007} = 256.34 + 216.27$$

$$Y_{2006-2007} = 472.61$$

or say Rs. 4,72,610 Lakhs

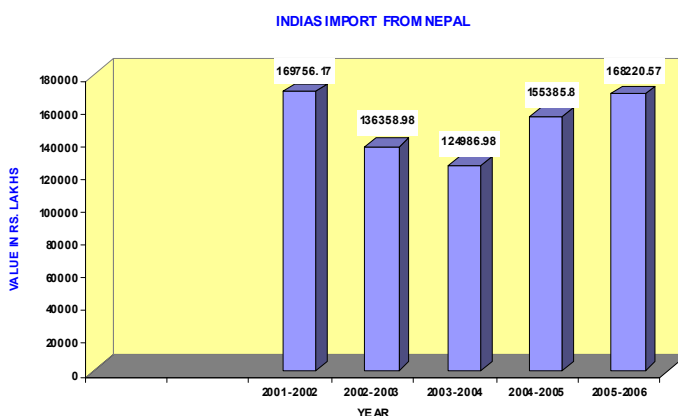
So from above we may say that the India's total Exports to Nepal for the year 2006-2007 can be Rs. 4,72,610 Lakhs (approx).

### (b) India's Import from Nepal

**Table 2**

INDIA'S IMPORT FROM NEPAL		VALUE IN RS. LAKHS			
YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
VALUE IN RS. LAKHS	169756.17	136358.98	124986.98	155385.8	168220.57

**Figure 2**  
**INDIA'S IMPORTS FROM NEPAL (2001-2006)**



In contrast to exports India's imports from Nepal, being confined to primary products like jute goods, pulses, ginger, oil cakes, cardamom, rosin, skin, etc. The principal reason for low imports from Nepal is narrow commodity base of Nepal's exports to India, being confined to agricultural, dairy and forestry products. India's import from Nepal reaches to Rs. 1363 Cr. in year 2002-03 from Rs. 1697 Cr. in the year 2001-02. Thus instead of increase in imports trends the India's import from Nepal during the year were decreased. Comparing both the import values the decrease was of 19% on the 2001-02 imports. During the year 2003-04 India's import from Nepal were gone to Rs. 1250 Cr. from Rs. 1363 Cr. in 2002-03, resulting again an unexpected decrease of 8% on imports of 2002-03 from the Nepal. India's import from Nepal during the year 2005-06 were Rs. 1682 Cr. which in the year 2004-05 were Rs. 1554 Cr. Comparing both the values the conclusion comes that there had been a little increase in the India's import from Nepal and on computing this increase is approx. 8% on the import of 2004-05.

**Trends of India's Import From Nepal**

India's import from Nepal Trends has been analyzed by using Least Square Trend Value Equation:  $Y = a + bX$

Where

Y = Required Trend Value of Import from Nepal.

X = Unit of time

a = Constant Value  $a = \frac{\sum Y}{N}$

b = Intercept  $b = \frac{\sum XY}{\sum X^2}$

1. Table for Computing the Value of Constants ( Values in 000' Rs. Lakhs)

YEAR	Y (IMPORT VALUE) IN 000' Rs. LAKHS	X (TIME DEVIATIONS) BASE YEAR= 2003- 2004	X <sup>2</sup>	XY
2001-2002	169.75	-2	4	-339.50
2002-2003	136.36	-1	1	-136.36
2003-2004	124.98	0	0	00.00
2004-2005	155.38	+1	1	+155.38
2005-2006	168.22	+2	4	+336.44
N = 5	$\sum Y = 754.69$		$\sum X^2 = 10$	$\sum XY = 15.96$

2. Computation of the Value of Constants and Trend Value Equation  
( Values in 000' Rs. Lakhs)

Value of Constant (a)	Value of Constant (b)	Trend Value Equation
$a = \frac{\sum Y}{N}$	$b = \frac{\sum XY}{\sum X^2}$	$Y = a + bX$
$a = \frac{754.69}{5} = 150.94$	$b = \frac{15.96}{10} = 1.59$	$Y = 150.94 + 1.59X$

3. Forecasting the Trend Value of Total Imports from Nepal for 2006-2007

( Values in 000' Rs. Lakhs)

$$Y_{2006-2007} = a + b(+3)$$

$$Y_{2006-2007} = 150.94 + 1.59(+3)$$

$$Y_{2006-2007} = 150.94 + 4.77$$

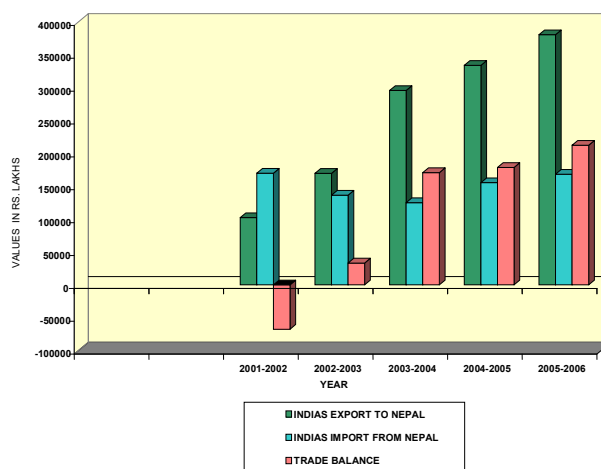
$$Y_{2006-2007} = 155.71$$

or say Rs. 1,55,710 Lakhs

So from above we may say that the India's total imports from Nepal for the year 2006-2007 can be Rs. 1,55,710 Lakhs (approx).

**(c) India's Balance of Trade with Nepal:**

**Figure 3**



In the year 2001-02 India's exports to Nepal were Rs. 1022 Cr. and imports were Rs. 1697 Cr. which resulted in a negative trade balance of Rs. 675 Cr. during the year. In the year 2002-03 India's total exports to Nepal jumped Rs. 1695 Cr. where as the imports reached to Rs. 1363 Cr. which resulted to a favorable balance of trade of Rs. 332 Cr. The performance of India's export to Nepal during the year 2004-05 was Rs. 3339 Cr. where the imports were Rs. 1554 Cr. Comparing both the figures again a positive figure ( i.e favorable trade balance ) of Rs. 1785 Cr. comes. While in 2005-06 India's exports to Nepal increased to Rs. 3805 Cr. and imports went to Rs. 1682 Cr. accounting a positive balance of trade of Rs. 2123 Cr. On comparing it with the trade balance of the year 2004-05 of Rs. 1785 Cr. an increase of 19% p.a. on the trade balance 2004-05 is recorded.

### **Conclusion**

India is the single largest trade partner of Nepal and the bilateral trade is considerably in favor of India. Although the volume of Indo-Nepal trade has been increasing yet the share of India in Nepal's total exports and imports has been sharply declined in last twenty years. There is need for conscious and consistent efforts on the part of both countries to increase more the volume of bilateral trade. Being an elder brother, initiative should mostly come from India and reduce the trade gap. India should promote its imports from Nepal by providing its market to more products of Nepal and credit facilities to Nepal. The prospects of exports to Nepal are brighter

in the sense that Nepal is in the very early stage of its developmental activities. For development, Nepal will have to require machinery and technology. India can export such items very well and can earn a lot.

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